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To be argued by
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United States Court of Appeals
FOR THE SECOND CIRCUIT

UNIVERSAL CITY STUDIOS, INC.,
Plaintiff-Appellant,
Cross-Appellee,

—against—

NINTENDO CO., LTD. and NINTENDO OF AMERICA, INC.,
Defendants-Appellees,
Cross-Appellants.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

REPLY/ANSWERING BRIEF OF
UNIVERSAL CITY STUDIOS, INC.

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**COUNTER-STATEMENT OF ISSUES PRESENTED FOR
REVIEW ON CROSS-APPEAL**

1. Whether the District Court correctly found that Nintendo's licensees were entitled to settle Universal's claims against them.

2. Whether the District Court correctly held that Nintendo had no right to the moneys which the licensees paid to Universal in settlement of Universal's claims.

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REPLY/ANSWERING BRIEF OF
UNIVERSAL CITY STUDIOS, INC.

Preliminary Statement

This reply/answering brief is respectfully submitted on behalf of Universal City Studios, Inc., in further support of its appeal, and in opposition to the cross-appeal of Nintendo Co., Ltd. and Nintendo of America, Inc. This brief responds to Nintendo's Opening Brief, filed April 10, 1986 (cited herein as "Nintendo Br."). Where appropriate, this brief respectfully refers the Court to Universal's Opening Brief, filed March 18, 1986 ("Universal Br."), for a fuller statement of Universal's positions.

Nintendo's brief is a puzzling document. It urges this Court to put its stamp of approval on a decision that Universal engaged in baseless litigation, asserting trademark rights it "knew" it did not have, although Universal concededly was advised by its regular litigation counsel that it was "on firm ground to bring this complaint and this action." Nintendo asks

this Court to approve the imposition of punitive damages on Universal for asserting "overbroad" rights, although Universal's complaint was directly based on a prior federal court judgment. Nintendo asks this Court to approve an attorneys' fee award which necessarily imputes a violation of Rule 11 to Universal's trial counsel, Townley & Updike, although the District Court never found that Townley & Updike acted in bad faith, as this Court's prior decisions required it to find.

One would expect an appellate brief defending such extraordinary rulings to show that Universal's claim of trademark was not merely wrong but frivolous. At the barest minimum, one would expect to see a defense of the fairly elementary proposition that Universal "knew" of the supposed defect in its trademark which led the District Court to decide that Universal had no rights.

One sees no such thing. Nintendo totally abandons the District Court's conclusion that the Cooper Judgment in favor of Universal's predecessor-in-interest, Major Richard Cooper, was an invalid "assignment in gross." Nintendo claims that this Court can affirm the findings of tortious interference and bad faith independently of "the prior ruling that King Kong was not a trademark owned by Universal." Nintendo Br. 4. Yet Nintendo never faces the absurdity of suggesting Universal could have "known" that it *lacked* trademark rights if it in fact *had* trademark rights.

Nintendo urges upon this Court other, alternative arguments about the Cooper Judgment—chiefly arguments about the supposed "context" in which that Judgment was entered, which Nintendo claimed in the court below created an "estoppel" against Universal. Nintendo never tells this Court that the lower court expressly *rejected* these contentions.

Nintendo's position is untenable. Its reliance on contentions which the lower court *rejected* renders completely incoherent its defense of the lower court's decision that Universal "*knew*" of the supposed defect in its rights. Simply stated, Universal is now supposed to have "known" a legal conclusion which the District Court itself did not "know," and actually believed to be untrue.

Nintendo's brief itself demonstrates how far this case really is from the kind of baseless litigation which this Court has permitted the District Courts to penalize with Rule 11 or other sanctions. The very fact that Nintendo cannot defend the decision below on its own terms, and must seek refuge in contentions which the District Court expressly *rejected*, shows, at the barest minimum, that there are two different ways to look at the issue of Universal's trademark rights. That Universal and its counsel chose to rely on one of them is not remotely enough to warrant the massive, punitive sanctions which the court below imposed—or the serious reputational injury which its unwarranted rulings have inflicted on Universal's officers and lawyers.

Argument

POINT I

NINTENDO'S "ANSWERING" BRIEF IS COMPLETELY UNRESPONSIVE TO UNIVERSAL'S DEMONSTRATION THAT IT DID NOT "KNOW" THAT IT HAD "NO" TRADEMARK RIGHTS UNDER THE COOPER JUDGMENT. UNIVERSAL WAS FULLY ENTITLED TO CLAIM SUCH RIGHTS.

Insofar as Nintendo's present brief purports to answer Universal's Opening Brief, it is completely unresponsive. It simply *ignores* the controlling facts and legal points detailed by Universal.

Nintendo does not even try to show that the declaratory Cooper Judgment was an invalid "transfer in gross" because it did not transfer to Cooper "any other aspect of RKO's business," as the District Court erroneously held (578 F. Supp. 911, 923). Nintendo does not respond *at all* to Universal's showing that a declaratory judgment does not even purport to "transfer" property, as the District Court erroneously held. Universal Br. 25-31.

Nintendo does not even mention that the Cooper Judgment was premised on findings that RKO had misappropriated the

Coopers' rights in King Kong, and declared Major Cooper the owner of "all rights" in King Kong, excepting only RKO's movie copyrights. See Universal Br. 7-9; A845, 878. Nintendo does not respond at all to Universal's demonstration that there is no basis in the Cooper Judgment for Nintendo's claims that a "visual image" of King Kong could not be used in trademark licensing. It ignores Universal's showing that these contentions, premised on RKO's supposed rights under the Judgment, amount to saying that a misappropriator's rights can defeat those of its victim. Universal Br. 30-31, 42-43. Nintendo continues to assert that "Universal" knew this essentially absurd "fact," without confronting Universal's demonstration that only a junior lawyer, Sifuentes, testified to such supposed "knowledge"; that she had never even read the Cooper Judgment papers because they were, she said, "too long"; and that she repeatedly *kept* her supposed "knowledge" from Mr. Sheinberg and other senior officers—*i.e.*, from "Universal." See Universal Br. 12-14, 39-41, 43-44.

Nintendo does not respond to Universal's showing that RKO had developed a valuable merchandising business under the King Kong trademark, and that the California Federal Court declared that entire business to be "solely" and "exclusively" Cooper's property. Universal Br. 28-31; A309-11, 878. Nintendo falsely states that Universal does not discuss the District Court's "secondary meaning" holding. Nintendo Br. 29 n.5; *compare* Universal Br. 27-28.*

While urging affirmance of the District Court's punitive damage/attorneys' fee award of \$1,365,043.98, Nintendo fails to discuss *any* of the relevant decisions of this Court.** Yet as

* Point I of Universal's Opening Brief (at 25) is captioned:

THE COURT BELOW ERRED AS A MATTER OF LAW IN ITS TREATMENT OF THE COOPER JUDGMENT. THE COOPER JUDGMENT WAS NOT AN INVALID TRANSFER IN GROSS, NOR DID IT DESTROY THE MARK'S SECONDARY MEANING AS A MATTER OF LAW.

** See *Eastway Construction Corp. v. City of New York*, 762 F.2d 243, 253, 254 (2d Cir. 1985); *Durham Industries, Inc. v. North River Insurance Co.*, 673 F.2d 37, 41 (2d Cir.), cert. denied, 459 U.S. 827 (1982); *Puritan Insurance Co. v. Eagle S.S. Co.*, 779 F.2d 866, 873 (2d Cir. 1985); *Dow*

Universal showed in detail, these decisions, separately and cumulatively, preclude any such award in this case.

While urging affirmance of the District Court's completely unfair and unwarranted imputation of misconduct to Townley & Updike under Rule 11, Nintendo never even mentions this Court's repeated holdings, beginning with *Nemeroff v. Abelson*, 620 F.2d 339, 350 (2d Cir. 1980), that Rule 11 in its pre-1983 form could apply *only* if Townley & Updike were proved to have acted in "subjective bad faith." It never faces up to Universal's showing that there was not a scintilla of evidence to that effect below. See Universal Br. 46-48.

Likewise, Nintendo ignores the District Court's clear legal error in ruling that Universal could not rely on the advice of its regular litigation counsel that it was "on firm ground to bring this complaint and this action" unless it called counsel to testify, and proved that his advice had "justification" and was "proffered with[] research or memoranda analyzing the claim" and "analysis of the merits of the professed claim." 615 F. Supp. at 846-47, 862. Nintendo ignores that there was, and is, no legal authority whatever for the proposition these rulings necessarily imply—that the research or analysis of a lawyer must be judicially reviewed and approved before a client can properly rely on his advice. See Universal Br. 35-38.

Nintendo's consistent failure to respond to Universal's Opening Brief is especially troubling given the issues before this Court. This is no routine appeal. The lower court's erroneous treatment of the Cooper Judgment, its misreadings of this Court's Rule 11 decisions, and the other errors detailed in Universal's Opening Brief were not only wrong in themselves; they were the means by which Nintendo led the District Court to tar Universal, its officers, and its lawyers with wholly

Chemical Pacific Ltd. v. Rascator Maritime S.A., No. 85-7068 (2d Cir. Jan. 21, 1986), cited by Universal at Br. 45, 46, 47, 48, 49. Not one of these decisions is discussed by Nintendo. Only *Dow Chemical* is even mentioned in a fleeting, and inaccurate, footnote reference. Nintendo Br. 48 n.19. Compare Universal Br. 47-48, 49.

unwarranted findings of intentional tortious misconduct, professional irresponsibility, perjury and bad faith.

Yet, in urging this Court to put its stamp of approval on those rulings, Nintendo tacitly concedes that Universal's Opening Brief set forth a coherent view of the Cooper Judgment, and of Universal's conduct based on that Judgment, to which it can make no direct response. One has to wonder how Nintendo can still claim that Universal lacked a "good faith basis" for bringing suit, or pursuing settlements with Nintendo and its licensees.

POINT II

THE COURT BELOW ERRED AS A MATTER OF LAW IN ITS TREATMENT OF THE COOPER JUDGMENT.

The alternative arguments by which Nintendo attempts to salvage the District Court's ruling that Universal had no trademark rights under the Cooper Judgment are without merit.

A. Nintendo's "Construction" Arguments.

First, Nintendo urges its own "construction" of the Cooper Judgment. It asserts that Major Cooper won only limited "contract rights" against RKO, and that "[a]fter the *RKO* litigation, King Kong fundamentally remained the business of RKO through its continued exclusive ownership of the classic movie." Nintendo Br. 6, 7, 30. This is simply untrue.

Far from giving Major Cooper only "contract rights," the Cooper Judgment was fundamentally premised on a finding that the licenses which Cooper's father granted RKO gave *RKO* only limited "contract" rights—to make one movie (and a sequel)—and that the Coopers had otherwise always owned "all" rights in King Kong, excepting only the movie copyrights themselves. Far from leaving King Kong "fundamentally . . . the business of RKO," the Cooper Judgment declared that *all* exploitations of King Kong—including the right to control

future King Kong movies and the merchandising of King Kong products—are “exclusively vested in and solely owned by Richard Cooper.” See Universal Br. 7-9, 25-31.

In this Court, as below, Nintendo continues to harp on—and exaggerate—the limited rights that the Judgment left in RKO. *E.g.*, Nintendo Br. 7-8. RKO retained *only* the *copyright* rights in its 1933 movie (and 1934 sequel): all other rights—including the right to exploit in merchandising both future King Kong movies *and* RKO’s movies—belonged to Major Cooper. See Universal Br. 7-9, 30-31.*

The Cooper Judgment contained no prohibition on use of a “visual image” in King Kong licensing. See Universal Br. 7-9; A848, 872. The only even arguable limitation on Cooper’s rights was on the right to use actual copyrighted stills, not some broad “visual image” limitation. See Universal Br. 16 n.*, 30-31; A89. As Ms. Sifuentes, Nintendo’s star witness, testified:

Q Did you reiterate that in May of 1982 that whatever they [Universal’s licensees] did couldn’t look like the original movie?

A Oh no, that isn’t the case. They simply couldn’t use stills from the original movie.

Q Did you tell them that their gorilla had to look different than the original movie?

A No.

—A2610.

* It is thus highly misleading for Nintendo to repeatedly state that, after the Cooper Judgment, RKO continued to “own” the movies, or that they remained RKO’s “exclusive property,” *see, e.g.*, Nintendo Br. 6, 7-8, 22-23, without distinguishing which of the “bundle of rights” entailed in the concept of “ownership” remained with RKO, and which belonged to Cooper. Furthermore, the limited rights which RKO retained under the Judgment were narrowed still further in the settlement agreement between Universal and RKO. Under that agreement, RKO relinquished even its copyright rights, except for the right to distribute “*verbatim* copies”: all other rights to distribute depictions and other “visual images” of King Kong were Universal’s. Universal Br. 9-10, 30-31, 42-43; A888.

Everyone else testified to the same effect. See A89, 681-83, 695. RKO, while maintaining that it had the right to say no, did not deny Universal the right to use stills. Universal Br. 16 n.*, 31; A788-89; A800.*

Nintendo's exaggerated description of Universal's complaint as supposedly claiming "all-encompassing rights" or "all rights" (Nintendo Br. 23, 26) obscures that the complaint did *not* claim a right to use actual stills. Nintendo's "visual image" contentions are groundless, as are the "overbreadth" contentions based on them.**

B. Nintendo's "Secondary Meaning" Arguments.

The District Court's 1983 Decision held that King Kong lacked secondary meaning as a matter of law, and granted Nintendo summary judgment. According to the District Court, the Cooper Judgment *itself* destroyed "RKO's trademark rights" by splitting up King Kong between Cooper and RKO, making it impossible for King Kong to denote a "single source of origin." 578 F. Supp. at 923-25.

Nintendo makes no response to Universal's showing that the Cooper Judgment expressly declared Cooper the "sole" and "exclusive" owner of "all rights" in King Kong (other than

* Nintendo maintains, citing only A319, that Universal's merchandising business was " 'frustrated' by the inability to use the classic depictions of King Kong from the movies." Nintendo Br. 30-31. A319 does not support such statement, and neither does any other evidence. See Universal Br. 16 n.*, 30-31.

** Indeed, the very idea that Universal could have tried to be deliberately "overbroad", *i.e.*, to keep "secret" RKO's copyright rights, is inherently absurd. Nintendo's brief tacitly acknowledges as much by *deleting* Universal's clear reference to its agreements with RKO (and Major Cooper) as the source of its trademark rights. Thus, where Nintendo purports to quote from Universal's complaint, it elides by three dots Universal's express reference to the fact that its rights derive from "certain agreements and written assignments entered into between Universal and RKO General, Inc. and Universal and the heirs of Merian C. Cooper" (see the first line of the indented "quotation" of ¶ 6 of Universal's complaint, on p. 16 of Nintendo's brief; compare A22).

RKO's copyright rights). It makes no attempt to justify the District Court's holding that a co-ordinate federal court's judgment, intended to remedy a wrongful misappropriation of rights, was "unsuccessful" and actually destroyed those rights. See Universal Br. 27-28.*

Instead, Nintendo argues other "secondary meaning" contentions. *First*, it asserts, incorrectly, that Universal has failed to brief "secondary meaning" to this Court and "has, therefore, apparently waived any challenge to Judge Sweet's findings of no secondary meaning." Nintendo Br. 29 n.5. This is nonsense. Nintendo's attention is directed to Point I of Universal's Opening Brief, and specifically to pp. 27-28 thereof. Universal has "waived" nothing.

Second, Nintendo asserts, again incorrectly, that the District Court's 1983 grant of summary judgment on secondary meaning was "independent[ly]" based on alleged "unsupervised usages of King Kong." Br. 3. In fact the District Court stated that "Nintendo's evidence of third-party uses is *not* independently sufficient to justify the granting of summary judgment on this issue. . . ." See 578 F. Supp. at 926 (emphasis added). What allegedly *was* sufficient to justify summary judgment was the supposed destruction of "RKO's trademark rights" by the "transfer" of those rights in the Cooper Judgment. See 578 F. Supp. at 923-25.

Third, Nintendo attacks Universal for "omitting" the supposed "context" in which the California Federal Court entered the Cooper Judgment. It asserts that the "context" which

* Nintendo's silence is not surprising: in effect, the California Federal Court deemed RKO to have been licensed by Cooper for the limited purpose of producing and exhibiting specific movies. Nintendo must know that such licensing occurs regularly in the entertainment industry and does not impermissibly "split up" or otherwise destroy trademark rights. See, e.g., *VISA, U.S.A., Inc. v. Birmingham Trust National Bank*, 696 F.2d 1371, 1376-77 (Fed. Cir. 1982), *cert. denied*, 464 U.S. 826 (1983) (cited at Universal Br. 29). Indeed, Nintendo *itself* entered into an identical arrangement with its licensee, Ruby-Spears, to produce a "Donkey Kong" cartoon series. (A431) While Ruby-Spears holds the copyright in the cartoon series (A433), Nintendo specifically reserved the right to merchandise under its "Donkey Kong" trademark (A435). Nintendo would hardly have entered into such an arrangement had it believed that it would thereby deprive "Donkey Kong" of secondary meaning.

Universal "omitted" shows that the Cooper Judgment "did not create rights, such as trademark rights, that could be enforced against the world." Nintendo Br. 7, 29, 31. These charges are groundless.

In the first place, there is no need to look at any "context": the sweeping terms of the Judgment are clear on their face. Moreover, Universal does not argue that the Cooper Judgment "create[d]" rights, any more than that it "transferred" rights. Rather it is the California Federal Court's *declaration* that Major Cooper owned, and had always owned, "all rights" in King Kong—including the rights arising from RKO's merchandising activities under the King Kong trademark—which gives rise to Universal's trademark rights in King Kong. Universal Br. 8-9, 26-28.*

Fundamentally, Nintendo's "context" arguments are an attempt to make it appear that some procedural complexity, which Universal has kept from this Court, prevents full enforcement of the Cooper Judgment according to its terms. See Nintendo Br. 29. But Universal "omitted" only legally irrelevant facts, which Nintendo now uses to confuse the relevant issues.

These facts concern litigation in the California Federal Court between Universal and RKO, and specifically an "unfair competition" counterclaim which RKO asserted against Universal. This litigation had nothing to do with Major Cooper's claim that RKO had misappropriated his (and his father's) rights: Major Cooper was not even a party to the counterclaim. The counterclaim also had nothing to do with merchandising

* In the same vein, Nintendo attacks a straw man in asserting that "Universal did not acquire trademark rights in prior litigation" (Br. 3). It is *Major Cooper's* victory under his cross-claim against RKO—to which Universal was not even a party—which gives rise to Universal's trademark rights (by an assignment whose legality the lower court did not dispute).

That the Cooper Judgment only "declared the rights as between Richard Cooper and RKO and [does] not affect any other person or entity" does not support Nintendo's argument. See Nintendo Br. 7. As Universal previously showed, this finding merely confirms the basic purpose of the Judgment, *i.e.*, to declare Cooper, not RKO, the owner of "all rights" which RKO had theretofore exercised. See Universal Br. 27-28; A845, 855, 878.

activities like Nintendo's, or indeed with Lanham Act issues at all.*

Moreover, the California Federal Court's judgment dismissing the counterclaim was *vacated* (by the Ninth Circuit) when Universal and RKO settled their movie-remake litigation—although only the keenest-eyed reader of Nintendo's brief would learn this critical fact, since Nintendo mentions it just once, in a fleeting phrase amidst page upon page of irrelevant detail—see the last sentence of the second paragraph on p. 7 of Nintendo's brief—and everywhere else argues as if that vacation had never happened. See, e.g., Nintendo Br. 13, 24, 39. Indeed, because the RKO counterclaim became a dead letter—which is indisputable, no matter how Nintendo seeks to bury the fact—the court below specifically *rejected* Nintendo's argument that the proceedings over the counterclaim somehow created an estoppel against Universal's enforcement of the Cooper Judgment. See 578 F. Supp. at 919-21.

In this Court, Nintendo deals with the District Court's express rejection of its "estoppel" arguments—as it does with so many other inconvenient facts—by never mentioning it. Nintendo apparently does not now contend that its former estoppel arguments have merit—as indeed they do not, both because of the vacation of the judgment on RKO's counterclaim, and for the other reasons set forth by the District Court. 578 F. Supp. at 919-21.

But this does not deter Nintendo from such assertions as that the "California federal court had specifically found that there was no trademark to vest in Cooper insofar as it simultaneously declared in the Universal judgment that no trademark existed." Nintendo Br. 29; see also *id.* 13, 24, 39. Yet these assertions not only ignore that the California Court reinstated

* Rather, RKO alleged a novel theory of "unfair competition" under the Copyright Act—to the effect that Universal's public announcements that it intended to produce a new King Kong movie "slandered and called in to question" and "diluted" RKO's copyright rights in its 1933 movie, and "interfered with RKO's prospective economic advantage" under a contract with Dino Di Laurentiis Corp. ("DDL"), whereby DDL was to make the new movie. A2053, 2055.

the Cooper Judgment *after* the "Universal judgment" Nintendo refers to (*i.e.*, the judgment on RKO's counterclaim) had been vacated, and that the counterclaim had nothing to do with product merchandising, or Lanham Act rights; they also misstate the record. The California Federal Court never declared that "no trademark existed." Nintendo's assertion has no citation after it. There is no basis for it.*

Finally, Nintendo notes that "[t]he issue of King Kong's secondary meaning . . . was actively litigated in the *RKO* litigation," and argues that "King Kong is what Universal proved it to be in the *RKO* litigation—a part of the ordinary English language without any ability to designate a single source of origin." Nintendo Br. 6, 8. As with its other "context" contentions discussed above, Nintendo stops short of saying that there is some sort of "estoppel" involved here—*i.e.*, the arguments *rejected* by the District Court, 578 F. Supp. at 919-21. But, as before, Nintendo does not state any other legal theory to which these facts might be relevant.**

One thing, however, is clear. The fact that a phrase is "part of the ordinary English language" does *not* prevent its being a trademark, and having secondary meaning. *See, e.g., Purex Corp., Ltd. v. Maryland Paper Prods. Co.*, 287 F.2d 186, 188

* Nintendo's uncited "no trademark" assertions may be its way of describing how the California Court resolved the "secondary meaning" issue which was raised by RKO's counterclaim. If so, Nintendo is guilty of gross misstatement. Beyond the fact that all of the California Federal Court's findings were vacated when RKO and Universal settled, even the vacated findings did *not* affirmatively state that King Kong lacked secondary meaning: the only "secondary meaning" finding the California Federal Court ever made was that "[t]here is no evidence that the title 'King Kong' has a secondary meaning" (A2182), *i.e.*, that RKO had failed to meet its burden of proof against Universal. How this finding—even if it had not been vacated—could ever be deemed a limitation of *Cooper's* rights under the Lanham Act Nintendo never says.

** Not only does Nintendo fail to draw a legal "bottom line" to which these facts might relate, but it misstates the facts as well. As noted above, whatever was "actively litigated" before the California Federal Court, the indisputable facts remain that (a) that Court made no affirmative finding that King Kong lacked secondary meaning, and (b) all of its findings on RKO's counterclaim were ultimately vacated.

(C.C.P.A. 1961); *Wyatt Earp Enterprises v. Sackman, Inc.*, 157 F. Supp. 621, 623-24 (S.D.N.Y. 1958); 3 R. Callman, *The Law of Unfair Competition, Trademarks and Monopolies* § 18.01, at 18-2 (1983). Indeed the District Court here expressly so held. 578 F. Supp. at 926 n.6. One need only think of such familiar examples as Jaguar, Mercury or Mickey Mouse. The District Court's erroneous treatment of the Cooper Judgment—the premise for its grant of summary judgment on the “secondary meaning” issue—cannot be justified on Nintendo's alternative legal theory, whatever it may be.

* * *

As Universal showed in its Opening Brief, the District Court's treatment of the Cooper Judgment boils down to the proposition that the California Federal Court did not know what it was doing, and destroyed valuable commercial rights in the course of remedying a wrongful misappropriation of them. Nintendo's present arguments share the same fatal defect.

POINT III

UNIVERSAL'S ASSERTION OF RIGHTS AND INSTITUTION OF SUIT WERE NOT TORTIOUS.

A. Universal's Conduct Was Not Tortious Under New York Law.

Nintendo's brief is so filled with rhetorical attacks on Universal and its counsel as to obscure that the only *conduct* which the District Court held was “tortious”—the only *act* which gave rise to tort liability—was Townley & Updike's conduct in sending “lawyers' letters” to some 40 of Nintendo's licensees. Universal Br. 22, 32-35. Notwithstanding all Nintendo's irrelevant rhetoric, New York law is clear that such conduct is not actionable.*

* Nintendo does not dispute that Townley & Updike's letters were classic “lawyers' letters”—they recited that Universal had commenced litigation against Nintendo, described the claims Universal was asserting, and urged the addressees to avoid suit by settling with Universal or ceasing sales. Nor can Nintendo dispute that, for the most part, the letters had no effect whatever: Nintendo claimed damages for only six of the recipients (who

Nintendo tries to dismiss as "frivolous" Universal's argument that New York law and policy, as most recently articulated in *Curiano v. Suozzi*, 63 N.Y.2d 113, 480 N.Y.S.2d 466 (1984), preclude attaching tort liability to Townley & Updike's conduct. Universal Br. 32-35. Nintendo argues that *Curiano* announces only a narrow rule against the use of "prima facie tort" where malicious prosecution will not lie. Nintendo Br. 36-37. Nintendo is wrong.

In fact, the claim rejected in *Curiano v. Suozzi* was *not* styled "prima facie tort" by the plaintiffs. Almost precisely like Nintendo's claims here, plaintiffs styled their claim "intentional infliction of economic harm." See 63 N.Y.2d at 116, 480 N.Y.S.2d at 468. It was clear both to the Appellate Division and the Court of Appeals that "intentional infliction of economic harm" would not lie where the underlying conduct involved only the assertion of rights, because of the "strong public policy of open access to the courts for all parties without fear of reprisal in the form of a retaliatory lawsuit." 63 N.Y.2d at 119, 480 N.Y.S.2d at 470.*

Nintendo cites no authority for its assertion that *Curiano* would have been decided differently had the plaintiff alleged "tortious interference with contract" rather than "intentional infliction of economic harm." It clearly would not. See, e.g., *Board of Education v. Farmingdale Classroom Teachers Ass'n*, 38 N.Y.2d 397, 406, 380 N.Y.S.2d 635, 644 (1975) ("the

apparently failed to make guaranteed payments); even with respect to these, a majority had never produced or sold a single "Donkey Kong" product—although "Donkey Kong" went on the market long *before* the letters were sent; and one licensee for which Nintendo received an award of damages, Sylva Manufacturing Co., did not even receive a Townley & Updike letter. Universal Br. 35 n.*; A2603-04.

* The Court of Appeals' discussion of "prima facie tort" was necessary *only* because the conduct attacked as "intentional infliction of economic harm" could *not* be actionable under that or any other traditional legal rubric, because of New York's "strong public policy" against penalizing the assertion of legal rights. 63 N.Y.2d at 116-19, 480 N.Y.S.2d at 468-70.

plaintiff's right to maintain an action does not hinge on the label used").*

B. In Any Event, Universal Was Entitled To Rely on the Litigation Advice of Its Outside Litigation Counsel.

Nintendo does not dispute that Stephen Kroft, a partner in the Los Angeles firm of Rosenfeld, Meyer & Susman, advised Universal's Robert Hadl that Universal was "on firm ground to bring this complaint and this action" (A204). Nintendo does not dispute that Kroft was a highly experienced intellectual property lawyer. Nintendo does not dispute that he had had extensive experience with respect to King Kong itself, having represented Universal in the California King Kong litigation and prepared Universal's agreements with Cooper and RKO. And Nintendo does not dispute that Hadl consulted only Kroft and abided by his advice fully. *See generally* Universal Br. 16-17, 35-38.

In the face of these undisputed facts, Nintendo argues a number of theories as to why Universal nonetheless could not rely on Kroft's advice. None has merit.

Nintendo—like the District Court (615 F. Supp. at 846-47, 861-2)—castigates Universal for leaving a "witness chair empty of Stephen Kroft," and criticizes his advice as "offhand and uninformed." Nintendo Br. 27, 41. We are aware of no legal basis for this criticism, and Nintendo cites none. Universal can be faulted for not putting Kroft on the stand only if it had had the burden to affirmatively prove that Kroft's advice had "justification," and was supported by adequate "analysis,"

* Nintendo's alternative argument that Townley & Updike asserted "overbroad" rights, *see* Nintendo Br. 17-18 & 31, is equally unavailing. Nintendo cites no New York, or other, authority that an assertion of rights would be actionable, absent actual malice or abuse of process, merely because it is labeled "overbroad." This is especially so in view of the total absence of any causal connection between the allegedly tortious "overbreadth" and the nonperformance by Nintendo's licensees—the licensees' customers supposedly refused to do business with a licensee whose product was involved in *any* litigation. 615 F. Supp. at 853. It made no difference what the "breadth" of Universal's assertion of rights was; the licensees would not sell goods involved in litigation "whether right or wrong." (A595)

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"research" and "memoranda," as the District Court erroneously ruled. 615 F. Supp. at 846-47, 861-62. But the very authority relied on by the District Court, the *Restatement (Second) of Torts*, states that a competent lawyer's advice establishes probable cause to commence civil litigation "even though it consists merely of an opinion." Universal Br. 36-37.

Nintendo cites various cases for the proposition that "advice of counsel is simply one factor to be considered 'in the context of the totality of the circumstances.'" Nintendo Br. 37-38. These cases are completely inapposite. The "circumstances" to which they refer do *not* include whether the lawyer's advice had "justification" or was supported by adequate "research" and "memoranda." A corporation does not act in bad faith when it relies on the advice of its regular outside litigation counsel that there is "firm ground" for filing suit without second-guessing his "research" and "memoranda." Not one of Nintendo's cases holds to the contrary.

Moreover, Kroft clearly did have an "informed basis" for his advice. Nintendo cannot dispute that Kroft was as knowledgeable as anyone concerning Universal's chain of title in King Kong, and that Universal was fully entitled to consult outside litigation counsel for advice on whether to bring suit against Nintendo.

Nor does Nintendo dispute that Kroft's firm in fact did its homework—conducting extensive research and writing various memoranda (including a 22-page memorandum) prior to the filing of any complaint. See Universal Br. 24-25; A1209. Nintendo deals with this fact by arguing with the *substance* of his firm's "research" and "analysis," Nintendo Br. 39-41 & nn. 9-11, and asserting that Universal is bound by its "tactical" decision not to offer this evidence at trial, *id.* 39.*

* Universal made no such "tactical" decision: the court below gave no hint at trial or before that it would impose a "justification" requirement. See Universal Br. 24-25, 36 n.*

Nintendo's attack on the substance of Kroft's legal work misses the whole point of Universal's argument. There is simply no case law which puts a client at risk of findings of "bad faith" and "tortious interference" depending upon whether a court holds that its lawyer acted carefully or not. Such a rule of law would be completely unworkable, and this Court should not adopt it.

(footnote continued)

Nintendo, like the court below (615 F. Supp. at 862), argues that Universal "consciously avoid[ed]" DiMuro, and failed to advise Kroft of DiMuro's supposed views. This is allegedly another reason why it was not entitled to rely on Kroft. Nintendo Br. 38-42. These contentions are legally and factually unsound. Thus, Nintendo cites no case holding that a difference of opinion between in-house and outside counsel vitiates a corporation's ability to rely on its outside counsel—much less holding that such reliance is tortious and justifies imposition of punitive damages, Rule 11 fees and other sanctions. *See*, to the contrary, the authorities cited at Universal Br. 43-44 (unresponded to by Nintendo). By the same token, Universal did not have to "disclose" the alleged "fact" that Sifuentes and DiMuro had decided that Universal "didn't have any rights in King Kong to license." (A1761) Indeed, it is noteworthy that the Nintendo brief consistently *changes* what Sifuentes said: it "paraphrases" her testimony as being that Universal "had no *substantial* rights," *see* Nintendo Br. 12, 24, 26, 32 and 33, when what she actually said was that Universal "didn't have *any* rights in King Kong to license." Nintendo apparently cannot swallow her actual "no rights" position anymore than the District Court could. *See* Universal Br. 41.*

Indeed, Nintendo itself—and the District Court—cannot really accept the proposition that a lawyer's advice is only to be relied on if it reflected adequate "research" and "memoranda." Thus both Nintendo and the District Court in effect say that Universal was bound by *DiMuro's* supposed advice about trademark (although DiMuro never gave any such advice). *See* Universal Br. 14-16, 42-43. DiMuro did not prepare a 22-page legal memorandum when he and Sifuentes supposedly decided that Universal "hadn't any rights." Sifuentes, indeed, had never even *read* the Cooper Judgment papers: they were, she said, "too long." (A783) Yet the District Court held that Universal was guilty of a tort and liable for punitive damages and attorneys' fees for *not* following their supposed advice.

* In a similar vein, Nintendo argues that Universal failed to disclose to Kroft not her alleged "view" but the alleged "fact" "of any use or disuse of King Kong since the conclusion of the *RKO* litigation." Nintendo Br. 43. But Kroft's advice specifically *assumed* that "neither Cooper nor Universal has ever exploited the 'King Kong' name or character." (A1184) Although Universal in fact had begun to do so, *see* Universal Br. 11-12, 14 n.*, Universal plainly cannot be faulted for its disclosures to Kroft on this subject—or any other. *See* Universal Br. 16-17, 38-43.

Moreover, Nintendo ignores the host of circumstances detailed by Universal to show that Sifuentes could not have been right. Universal Br. 38-42. Most strikingly, Nintendo totally ignores that Adler, Sifuentes' superior—who allegedly was fully aware of her and DiMuro's "decision" (A795)—testified just a few months after their alleged discussion that he believed Universal owned the trademark rights in King Kong (A632). Although Adler's testimony was quoted by Universal (Br. 39), Nintendo does not even mention it.*

* * *

This is not a case where Universal "shopped" in bad faith from "lawyer to lawyer." *Compare Restatement (Second) of Torts* § 666, Comment e ("Good faith") (1976); Universal Br. 37-38. Universal was fully entitled to rely on outside litigation counsel for litigation advice in his area of special expertise. It was not guilty of a tort, or of bad faith, in doing so.

POINT IV

NINTENDO IS NOT ENTITLED TO PUNITIVE DAMAGES OR ATTORNEYS' FEES.

A. Punitive Damages.

Nintendo continues to be unable to cite any case which imposes punitive damages for the assertion of legal rights. *Whitney v. Citibank, N.A.*, 782 F.2d 1106, 1114 & n.5 (2d Cir. 1986) (Nintendo Br. 44), involved a District Court finding that a bank had backdated certain partners' consents, falsified bank

* Nintendo likewise ignores Universal's demonstration that the supposed DiMuro advice on which its "overbreadth" criticisms were largely based—his copyright advice to Sheinberg about Universal's new King Kong movie, and King Kong "theme park" attraction—did not speak *at all* to Universal's trademark rights. Universal Br. 14-16, 42-43. While Nintendo now characterizes these memoranda as supposed "direct evidence" of Universal's bad faith, *e.g.*, Nintendo Br. 4, its reading of them—and the District Court's—still cannot be squared with the plain language of the Cooper Judgment. *See* Universal Br. 30-31, 42-43. Universal showed that the memoranda *on their face* relate to *copyright* and *contract* issues, not merchandising and trademark, and that the memoranda do not even mention the Cooper Judgment. Nintendo does not dispute this, nor does it provide any explanation how the memoranda can or should be read to relate to merchandising. *See, e.g.*, Nintendo Br. at 17-18.

records, and "recklessly and wantonly" deceived plaintiff-customer to whom it owed a fiduciary duty in order to gain a profit at his expense. Nintendo's other case, *Roy Export Co. v. Columbia Broadcasting System, Inc.*, 672 F.2d 1095, 1098, 1106 (2d Cir.), *cert. denied*, 459 U.S. 826 (1982), involved a deliberate decision by CBS to broadcast copyrighted Charlie Chaplin footage in a "reckless[]" and "willful[]" manner notwithstanding plaintiffs' "repeated refusals" to grant CBS permission to show the footage. These cases of corporate wrongdoing are not remotely like Universal's assertion of rights.*

The conduct at issue here—filing a federal lawsuit and sending out "lawyers' letters"—cannot constitute the kind of conduct for which punitive damages could be awarded. This is especially so in view of New York's well-settled "strong public policy" of not penalizing the assertion of legal rights. See Universal Br. 45-46; *Curiano v. Suozzi*, *supra*.

B. Attorneys' Fees.

1. Rule 11.

While asking this Court to affirm the Rule 11 award below, Nintendo does not accuse the attorney who signed the complaint, or his firm, Townley & Updike, of subjective bad faith. It totally ignores this Court's repeated holdings that the Rule in its applicable form—before the 1983 amendments—would apply *only* if Townley & Updike had acted in bad faith. *E.g.*, *Eastway Construction Corp. v. City of New York*, 762 F.2d 243, 253 (2d Cir. 1985); *Nemeroff v. Abelson*, 620 F.2d 339, 350 (2d Cir. 1980) (cited at Universal Br. 47).**

* While citing inapposite cases, Nintendo fails to distinguish Universal's. For example, Nintendo does not deal with the basic tenet of New York law that punitive damages are appropriate only for "such wanton dishonesty as to imply a criminal indifference to civil obligations." See *Durham Industries, Inc. v. North River Insurance Co.*, 673 F.2d 37, 41 (2d Cir.), *cert. denied*, 459 U.S. 827 (1982) (cited at Universal Br. 45). Nintendo does not attempt to state how Universal's institution of a civil lawsuit manifested a "criminal indifference to civil obligations."

** Nintendo cites *Tedeschi v. Smith Barney, Harris Upham & Co.*, 579 F. Supp. 657 (S.D.N.Y. 1984), *aff'd*, 757 F.2d 465 (2d Cir.), *cert. denied*, 106 S. Ct. 147 (1985). Nintendo Br. 47-48. That case *confirms* that Rule 11 in its pre-amendment form permits an award only against an attorney.

Nintendo instead shifts its ground, asserting that Townley & Updike was an "instrument" which "blindly carried out Universal's decision." Nintendo Br. 47. Such an accusation—totally unsupported by the decision below—insults not only the integrity but also the competence of the firm. Nintendo should not be allowed to assert such a charge without proof to back it up. There is no such proof. Indeed, the court below *praised* the diligence and competence of Townley & Updike. 615 F. Supp. at 841; A250, 370.*

As yet another "alternative" basis on which to affirm the erroneous Rule 11 award, Nintendo invokes the "bad faith exception to the American Rule," on which the District Court did not rely. Nintendo Br. 48 & n.18. But that exception requires "*clear evidence*" that the challenged claims were "*entirely without color*" and "*made for reasons of harassment or delay or for other improper purposes.*" See, e.g., *Eastway Construction Corp. v. City of New York*, *supra*, 762 F.2d at 253 (emphasis added). The District Court did not award fees under this exception. The evidence before it could not satisfy *any* element of this stringent standard. Nintendo can do no better here.

2. Section 1117 of the Lanham Act.

The award of attorneys' fees is no more justifiable under § 1117 of the Lanham Act than it is under Rule 11. See Universal Br. 48-49. Nintendo cannot dispute that Lanham Act suits are *avored*, "in the interest of preventing consumer

* Nintendo hides in a footnote (p. 48 n.19) its "discussion" of *Dow Chemical Pacific Ltd. v. Rascator Maritime S.A.*, No. 85-7068 (2d Cir. Jan. 21, 1986). Contrary to what Nintendo there asserts, the District Court *did* impermissibly rely on Universal's supposed general litigiousness, and its supposed views of litigation as a profit center, in deciding to award Rule 11 fees. See 615 F. Supp. at 864-65; Universal Br. 47-48, 20 n.**

Nintendo relies (at 28) on language from *Coal Processing Equipment, Inc. v. Campbell*, 578 F. Supp. 445, 465 (S.D. Ohio 1981), that "accusations of infringement must be made with extreme accuracy and caution." Nintendo never tells the Court that *Coal Processing* is a *patent* case, and applies a special rule about asserting *patent* infringement claims necessitated by the special dangers posed by overbroad claims of *patent* rights. No such doctrine applies to trademarks. See *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena*, 298 F. Supp. 1309, 1314 (S.D.N.Y. 1969), *modified on other grounds*, 433 F.2d 686 (2d Cir. 1970), *cert. denied*, 403 U.S. 905 (1971).

confusion.” S. Rep. No. 93-1400, [1974] U.S. Code Cong. & Adm. News 7132, 7136. The converse is that attorneys’ fees to a prevailing defendant should therefore be granted only rarely—to penalize “unfounded suits brought by trademark owners for harassment and the like.” *Id.* See also *Yeshiva University v. New England Educational Institute, Inc.*, 84 Civ. 3319 (S.D.N.Y. March 13, 1986) (“defendants are rarely awarded attorney’s fees in trademark cases”) (A2615); *Thomas Nelson, Inc. v. Cherish Books Ltd.*, 595 F. Supp. 989, 992 (S.D.N.Y. 1984) (bringing trademark suit upon advice of counsel did not constitute bad faith, malice or fraud such as would render the case “exceptional”). Nintendo has never claimed—and could not—that Universal’s position on “likelihood of confusion” between King Kong and “Donkey Kong” was “unfounded.” Indeed, it did not do so on the prior appeal, when that issue was squarely before this Court. See Universal Br. 48 & n.

Just weeks ago, after Universal filed its Opening Brief, this Court handed down *Roth v. Pritikin*, No. 85-7515 (2d Cir. March 31, 1986). That case made express (in the analogous copyright area) that, because there is a statutory policy to encourage plaintiffs to bring suit,

[t]he logical converse [is] that attorneys’ fees to prevailing defendants be awarded circumspectly to avoid chilling [the] incentive to sue on “colorable” claims. . . . This is particularly true since an award of attorneys’ fees is deemed to serve the additional purpose of penalizing the losing party.

—Slip op. at 2442.

Such policy and reasoning are equally applicable to the District Court’s erroneous award of Lanham Act fees.*

* *Roth v. Pritikin* is further instructive in that it arose in a procedural context very similar to that presented here—*i.e.*, fees were awarded only long after dismissal of plaintiff’s main action and affirmance of such dismissal by this Court. In *Roth v. Pritikin* (as here) there was nothing in the lower or appellate court decisions in “Round I” of the litigation to indicate that the complaint was frivolous. This Court vacated the fee award on the ground that the District Court had relied on impermissible hindsight logic. See slip op. at 2444. The same is true here.

POINT V

THE DISTRICT COURT ERRED IN HOLDING UNIVERSAL LIABLE FOR CONTRIBUTORY COPYRIGHT INFRINGEMENT. ITS AWARD OF COPYRIGHT ATTORNEYS' FEES WAS IN ANY EVENT IMPROPER.

A. No Infringement Took Place.

Although urging this Court to affirm the District Court's ruling that Universal committed "contributory copyright infringement" in licensing the Tiger videogame, Nintendo still does not specify what protected elements of that game Tiger copied. As Universal set forth in its Opening Brief—and as Nintendo cannot dispute—only infringement of "protected elements" can give rise to a copyright claim, "contributory" or otherwise. Universal Br. 50-52; *see also Cooling Systems and Flexibles, Inc. v. Stuart Radiator, Inc.*, 777 F.2d 485, 493 (9th Cir. 1985) ("[w]hat is important is not whether there is substantial similarity in the total concept and feel of the works . . . but whether the very small amount of protectible expression . . . is substantially similar to the equivalent portions").

Nintendo continues to rely (Br. 50-51) on the District Court's conclusion that the "interaction" of various elements in "Donkey Kong" was protectible and that its "tone and feel" had been copied. But the cases it cites do not extend copyright protection to such amorphous elements. *See Warner Bros. Inc. v. American Broadcasting Cos.*, 720 F.2d 231, 241 (2d Cir. 1983) (infringement exists where "the allegedly infringing *character* captures the 'total concept and feel' of the copyrighted *character*") (emphasis added); *Atari, Inc. v. North American Philips Consumer Electronics Corp.*, 672 F.2d 607, 617-18 (7th Cir.), *cert. denied*, 459 U.S. 880 (1982) (the "Pac-Man" case) (same).

Nintendo does not even argue that its characters were copied. They were not. In any event the Donkey Kong characters are not "wholly fanciful" or otherwise protected. *See Universal Br. 51-52.*

B. The District Court's Award of Copyright Attorneys' Fees Should Be Reversed.

In seeking to sustain the lower court's award of copyright attorneys' fees, Nintendo cites a dictum to the effect that fees are generally awarded to prevailing plaintiffs. *Diamond v. Am-Law Publishing Corp.*, 745 F.2d 142, 148 (2d Cir. 1984); Nintendo Br. 51. This dictum was recently repeated in *Roth v. Pritikin*, *supra*, slip op. at 2442, citing *Diamond*. Both cases involve a fee request by a prevailing *defendant*. Nintendo does not address the Second Circuit authorities cited by Universal which state—in cases involving fee awards to prevailing *plaintiffs*—that copyright attorneys' fees are “sparingly” awarded, even to plaintiffs, and are “in the nature of a penalty.” Universal Br. 53.

An award of attorneys' fees would not be warranted here under *any* standard. Nintendo does not dispute that Universal directed Tiger to make changes to avoid substantial similarity; that Coleco then was invited to pass on the game and suggest any additional changes; and that Coleco, after its review and that of its copyright counsel—and *after consulting with Nintendo*—decided that the Tiger game could be marketed without further change. See Universal Br. 53-54.*

Universal went out of its way to *prevent* an infringement. There was no basis for an award of copyright fees against it.

* Nintendo tries to side-step these indisputable facts. It says that “Universal” knew that the Tiger game was “in its inception” an “admitted copy” but that “Universal” nonetheless “authorized” that infringement. See Nintendo Br. 2, 10-11, 14-16, 27. This is patent nonsense. Nintendo cannot dispute that “in its inception” the Tiger license was “known” only to Sifuentes and her immediate superior—who incorrectly told Sheinberg that there were *no* King Kong licenses outstanding. See Universal Br. 12-13; A170-71, 219-21. It is also undisputed that when Sheinberg and other senior executives later learned of the Tiger license, they *cancelled* it—precisely on the basis of a possible copyright infringement (A1929-30)—and only reinstated it after Coleco, following consultation with its counsel and Nintendo, indicated no objection to the Tiger game, on copyright grounds or otherwise. Universal Br. 53-54.

POINT VI

NINTENDO'S CROSS-APPEAL LACKS MERIT.

Nintendo's cross-appeal seeks "recovery" of moneys to which it was never entitled in the first place. The moneys which Coleco, Atari and Ruby-Spears paid to Universal, in return for Universal's covenants not to sue, are funds to which Nintendo has no claim whatever. See Universal Br. 18-19, 20-21.

Nintendo seeks "compensation" for "damage" which simply did not occur: Nintendo does not, and cannot, dispute the finding below that the payments to Universal by three of Nintendo's licensees, which its cross-appeal seeks to "recover," did not result "in any consequential reduction in the payment of licensing fees from these three licensees to Nintendo. Each of the three licensees satisfied its contractual obligation to pay the specified percentage of revenue to Nintendo." 615 F. Supp. at 855. As the District Court also found, "the \$4.76 million that Universal acquired from its agreements with Coleco, Atari and Ruby-Spears would not have inured to Nintendo in the absence of Universal's agreements with the three licensees." 615 F. Supp. at 855.

Nintendo's cross-appeal seeks a "windfall" of moneys to which it has no right. Nintendo cites no case that would remotely justify its "recovery" of these funds.

A. Tortious Interference with Contract.

In addition to the fact that Universal's assertion of rights was not tortious (*see* Point III *supra*), Nintendo faces the obstacle that Coleco, Atari and Ruby-Spears fully satisfied their contractual obligations to Nintendo. The New York Court of Appeals could not have been clearer: "In order for the plaintiff to have a cause of action for tortious interference with contract, it is axiomatic that there must be a breach of that contract by the other party, a situation not here present." *Jack L. Inselman & Co. v. FNB Financial Co.*, 41 N.Y.2d 1078, 1080, 396 N.Y.S.2d 347, 349 (1977) (citations omitted). See also *Nifty Foods Corp. v. Great Atlantic & Pacific Tea*

Co., 614 F.2d 832, 839 (2d Cir. 1980); *Israel v. Wood Dolson Co.*, 1 N.Y.2d 116, 120, 151 N.Y.S.2d 1, 5 (1956).*

The District Court found no breach of the license agreements with Coleco, Atari and Ruby-Spears. It found that the licensees paid Nintendo every cent it was entitled to. 615 F. Supp. at 855. These findings are not contested by Nintendo and are not clearly erroneous.

Universal "also did not impair payment of royalties to Nintendo" even in an indirect way. 615 F. Supp. at 861. The number of units sold by Nintendo licensees was in no way reduced as a consequence of Universal's actions. The president and chief executive officer of Coleco (Nintendo's largest licensee) testified that Universal's agreement with Coleco did *not* affect the number of units sold *at all*. (A2607-09)**

Unable to claim a failure of royalties, Nintendo is forced to argue a much more attenuated (and baseless) theory of breach—that by signing agreements with Universal, Coleco, Atari and Ruby-Spears "recognized multiple ownership rights in Donkey Kong," thereby impairing Nintendo's ownership. Nintendo Br. 59. This theory does not withstand analysis.

* The District Court cases which Nintendo asserts excuse it from proving breach of contract (Br. 59-60) are contrary to *Inselman*, and the "wealth of recent authority to the contrary." *Nordic Bank PLC v. The Trend Group Ltd.*, 619 F. Supp. 542, 561 (S.D.N.Y. 1985).

** The District Court correctly rejected as "far too speculative" Nintendo's attempt by an algebraic formula to prove that it should have earned \$190 in merchandising revenues on each "Donkey Kong" game sold, since the makers of "Pac-Man" earned that much in merchandising on each unit of Pac-Man sold. See 615 F. Supp. at 854. There was no evidence (or even logic) advanced to justify such a formula. As the District Court correctly found, "there are significant differences between the [Donkey Kong and Pac-Man] licensing programs and the games beyond those caused by Universal's actions." 615 F. Supp. at 854.

Nintendo now advocates a somewhat similar "springboard" theory—that "Universal's pressure on these licensees [Coleco, Atari and Ruby-Spears] severely diminished Nintendo's ability to use these major licensees as planned springboards for the promotion and further licensing of Donkey Kong" (citing A2450-51). Nintendo's Appendix citation does not even mention this "springboard" theory. Nintendo Br. 60-61. It, too, is "far too speculative" to justify any recovery.

As was conceded by Howard Lincoln, Nintendo's general counsel, Nintendo's licensees had the right to *litigate* claims of infringement brought by third parties. (A2605-06) If they failed to litigate successfully, the licensees (not Nintendo) would bear 100% of the liability since Nintendo had not given such licensees a warranty, indemnity or representation that Nintendo's trademark was in fact valid. (A387-88, 411-12, 436, 456) Nintendo's theory of breach is that while these licensees had the right and obligation to *litigate*, they did not have the right to *settle*. (A2605-06)

This proposition is facially absurd. Moreover, it has no support in the contractual terms of Nintendo's licenses. It is in fact *contrary* to the licenses, as the District Court found: "Because, under the agreement[s], each licensee was also responsible for defending infringement actions at its own expense, it had a corollary right to settle such actions." 615 F. Supp. at 860. This finding is not clearly erroneous.*

As a separate ground for denying relief, the District Court found that Nintendo had waived any purported breach: "Nintendo's continued acceptance of performance [*i.e.*, receipt of royalties from its licensees] following what is now alleged to constitute a breach is tantamount to a waiver of its right to

* The premises for Nintendo's argument are also contrary to fact, as the District Court also found:

1. Nintendo's licensees did *not* enter into "license agreements" with Universal to "license" *Donkey Kong*. The agreements between Universal and Nintendo's licensees are by their express terms "covenants not to sue" and by their express terms such covenants are based on Universal's claimed rights in *King Kong*. See 615 F. Supp. at 856; A426, 477, 481.
2. Nintendo's licensees did not "implicitly recognize" ownership rights in *Donkey Kong* in Universal. All Nintendo's licensees did—implicitly or explicitly—was to pay Universal money to avoid suit based on Universal's claim of rights in *King Kong*. *Id.*
3. Finally, Nintendo's "ownership" of *Donkey Kong* was not "impaired." Nintendo continued to receive all royalties from such licensees. There was no proof of any other adverse effect on Nintendo. 615 F. Supp. at 855, 861.

These findings are not clearly erroneous.

recover damages for the alleged breach.” 615 F. Supp. at 861. Nintendo “derived the benefits of the license agreement” and therefore “cannot now be heard to allege a breach in order to establish a claim for tortious interference with contract.” See 615 F. Supp. at 861 (and authorities there cited). The cases Nintendo cites (at 58) do not even purport to address acceptance of contractual performance as a waiver of claims such as Nintendo’s.

Finally, Nintendo was not “damaged”—an essential element of tortious interference. See, e.g., *Simon v. Noma Electric Corp.*, 293 N.Y. 171, 177 (1944) (“to recover on the cause of action for wrongful interference . . . plaintiff had to prove damages resulting from that interference”); *Simon v. Royal Business Funds Corp.*, 34 A.D.2d 758, 310 N.Y.S.2d 409 (1st Dep’t 1970), *aff’d*, 29 N.Y.2d 692, 325 N.Y.S.2d 649 (1971).

B. “Unjust Enrichment”/Misappropriation.

Unable to establish any rights under its tortious interference theory, Nintendo argues that it should get the moneys which were paid to Universal because Universal would otherwise be “unjustly enriched,” and was guilty of “misappropriation” of Nintendo’s rights in “Donkey Kong.” Neither of these alternative legal theories entitles Nintendo to “recover” moneys to which it had no right in the first place.

1. There Was No Unjust Enrichment as between Nintendo and Universal, or “Misappropriation” by Universal.

Nintendo pretends that preemption is its main obstacle to recovery. See Nintendo Br. 53-56. Nintendo faces another, more critical obstacle—Universal was not “enriched” at Nintendo’s expense. The moneys received by Universal were not “pursuant to a right held by the [counterclaim] plaintiff,” 615 F. Supp. at 856, *quoting* IV G. Palmer, *Law of Restitution* § 21.5 (1978). Universal’s covenants not to sue did not license Nintendo’s rights in Donkey Kong. Rather, they compromised

“a right controlled by the [counterclaim] defendant”—they were “based on the sale of King Kong; not Donkey Kong, and hence do not support recovery based on unjust enrichment.” 615 F. Supp. at 856.

Universal did not “misappropriate” Nintendo’s rights at all. As the District Court found, the agreements between Universal and Coleco, Atari and Ruby-Spears were *covenants not to sue* based on *Universal’s* claim of rights in *King Kong*, not *licenses* of *Nintendo’s* rights in *Donkey Kong*. 615 F. Supp. at 856; A426, 477, 481. Since the documents on their face are covenants not to sue (A426, 477, 481), these findings cannot be “clearly erroneous.”

As in the court below, Nintendo demonstrates in this Court a complete “inability to cite cases with facts similar to those present here,” 615 F. Supp. at 856. The law is squarely against Nintendo. *See, e.g., Dolmetta v. Uintah National Corp.*, 712 F.2d 15, 20 (2d Cir. 1983) (“To recover on a theory of unjust enrichment a plaintiff must prove that the defendant was enriched, that such enrichment was at *plaintiff’s* expense, and that the circumstances were such that in equity and good conscience the defendant should *return* the money or property to the *plaintiff*.”) (emphasis added); *Indyk v. Habib Bank Ltd.*, 694 F.2d 54, 57-58 (2d Cir. 1982) (“crucial” that the unjust enrichment must be “as between the two parties”; doctrine inapplicable where “enrichment” did not come from or at the expense of party seeking to invoke doctrine); *see also Burndy Corp. v. Teledyne Industries, Inc.*, 748 F.2d 767, 772 (2d Cir. 1984); *Reprosystem, B.V. v. SCM Corp.*, 727 F.2d 257, 263-64 (2d Cir.), *cert. denied*, 105 S. Ct. 110 (1984).*

* The New York cases are to the same effect. *See, e.g., McGrath v. Hilding*, 41 N.Y.2d 625, 629, 394 N.Y.S.2d 603, 606 (1977); *Alko Manufacturing Corp. v. Neptune Meter Co.*, 20 A.D.2d 635, 246 N.Y.S.2d 265 (1st Dep’t 1964), *aff’d*, 16 N.Y.2d 777, 262 N.Y.S.2d 500 (1965) (complaint legally insufficient to state a cause of action for unjust enrichment because “it fail[ed] to allege defendants’ receipt of profit or property rightfully the plaintiff’s”).

2. Nintendo's Misappropriation Claims are Preempted by the Copyright Act.

The District Court analyzed the copyright preemption issue correctly. 615 F. Supp. at 856-57. What was supposedly "misappropriated" here—indulging Nintendo's mischaracterization of the covenants not to sue—was an intangible right to license Donkey Kong, a right within the purview of copyright. Since nothing else, tangible or intangible, was "misappropriated," the Copyright Act preempts any such cause of action. See 17 U.S.C. § 301(a); *Mayer v. Josiah Wedgwood & Sons, Ltd.*, 601 F. Supp. 1523, 1531-36 (S.D.N.Y. 1985) (to avoid preemption something must be "misappropriated" other than proceeds of "intangible property rights"); *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 501 F. Supp. 848, 851-52 (S.D.N.Y. 1980), *aff'd*, 723 F.2d 195 (2d Cir. 1983), *rev'd on other grounds*, 105 S. Ct. 2218 (1985) (torts of conversion and interference with contract preempted where "essence" of claim was that plaintiffs were deprived of "exclusive right" to authorize use or distribution of copyrighted materials; nothing tangible was converted). See also *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 n.17 (1984) (matter of federal law when defendant "authorizes the use of a copyrighted work without actual authority from the copyright owner"); *Peter Starr Production Co. v. Twin Continental Films, Inc.*, 783 F.2d 1440, 1442-43 (9th Cir. 1986) (same); *Durham Industries, Inc. v. Tomy Corp.*, 630 F.2d 905, 918-19 (2d Cir. 1980).

* * *

Nintendo's cross-appeal should be denied not just because of the deficiencies in law and logic detailed above. Fundamentally, this cross-appeal is an attempt to vastly extend the erroneous rulings from which Universal appeals—that the prior Cooper Judgment of the California Federal Court can be swept aside as if it were the work of an incompetent trademark lawyer; that the firm advice of Universal's experienced litigation counsel likewise counts for nothing; that Universal sup-

posedly "knew" of defects in its rights under the Cooper Judgment which simply did not exist. Nintendo's legally groundless cross-appeal really seeks \$4.76 million in additional punitive damages based on these rulings. It should be denied.

Conclusion

For the reasons set forth above, and in Universal's Opening Brief, the 1983 Decision that no trademark rights were "transferred" to Major Cooper, and that King Kong lacks secondary meaning as a matter of law, should be vacated. The 1985 Decision insofar as it sustained Nintendo's counterclaims, and imposed Rule 11 and other sanctions, should likewise be vacated, and the counterclaims dismissed. Nintendo's cross-appeal should be denied.

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Respectfully submitted,

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